

Edenred

Price EUR20.36

After H1 results, management's FY guidance looks conservative. FV upgraded to EUR22

Fair Value EUR22 vs. EUR19 (+8%)

NEUTRAL

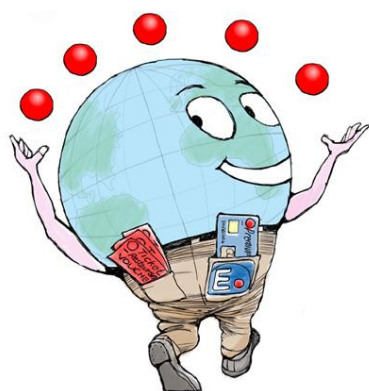
Bloomberg	EDEN.FP
Reuters	EDEN.PA
12-month High / Low (EUR)	23.6 / 13.9
Market Cap (EUR)	4,757
Ev (BG Estimates) (EUR)	5,622
Avg. 6m daily volume (000)	952.0
3y EPS CAGR	10.8%

	1 M	3 M	6 M	31/12/15
Absolute perf.	18.1%	12.0%	22.9%	16.6%
Travel&Leisure	-7.2%	-5.1%	-7.6%	-15.6%
DJ Stoxx 600	-0.3%	-2.3%	0.6%	-7.0%

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	1,069	1,128	1,234	1,308
% change		5.5%	9.4%	6.0%
EBITDA	388	421	482	521
EBIT	341.0	372.3	428.6	464.5
% change		9.2%	15.1%	8.4%
Net income	206.0	220.3	253.3	276.8
% change		6.9%	15.0%	9.3%

	2015	2016e	2017e	2018e
Operating margin	31.9	33.0	34.7	35.5
Net margin	16.6	19.1	20.0	20.7
ROE	-12.2	-12.2	-13.5	-14.7
ROCE	-44.8	-44.2	-46.9	-49.6
Gearing	NM	NM	NM	NM

(EUR)	2015	2016e	2017e	2018e
EPS	0.87	0.94	1.08	1.18
% change	-	8.4%	15.0%	9.3%
P/E	23.4x	21.6x	18.8x	17.2x
FCF yield (%)	6.1%	8.8%	10.2%	9.4%
Dividends (EUR)	0.84	0.90	1.03	1.13
Div yield (%)	4.1%	4.4%	5.1%	5.5%
EV/Sales	5.0x	5.0x	4.5x	4.3x
EV/EBITDA	13.9x	13.3x	11.6x	10.7x
EV/EBIT	15.8x	15.1x	13.1x	12.0x



All H1 trends should continue in H2 sustained by continuing innovation (digital solutions, Apple Pay offer) with further new significant clients wins, while management expects organic IV of over 8% and operating flow-through lower than in H1 but definitely over 50%. FY 2016 EBIT guidance is between EUR350m and EUR370m taking into account a EUR35m negative currency impact which looks conservative to us, notably on a BRL/EUR parity of 4.00 on average. In all, based on organic IV volume growth of 8.6% (vs. 8% previously) with flow-through of 60% and a currency negative impact of EUR25m, our EBIT reaches EUR372m. Based on our DCF, our FV moves to EUR22. Neutral opinion confirmed.

ANALYSIS

- Higher Ifl growth with sustained flow-through:** Despite further significant negative currency impacts, better trends in operating businesses in Q2 with an organic IV growth of 9.3% after 7.4% in Q1. This improvement stems mainly from **Europe** (31% on IV) excluding France, but also in **France** with Ticket Restaurant. In Latam (48% of IV), Expense Management development sustained top line growth (organic up +16.8% in Brazil and 19.1% in Hispanic Latam) while unemployment continued to weigh on organic growth in Employee Benefits. Note that **Embratec** (65% owned by Edenred) was finalised at the end of May contributing EUR2m in H1. Moreover, the H1 flow-through ratio reached 66% with strict cost control. All these trends should continue in H2 and management confirmed organic IV growth of over 8% (we move our estimate to 8.6% vs. 8% previously) with flow-through of over 50% (our estimate is 60%) after 66% in H1.
- Results volatility set to remain due to currencies:** Management's FY EBIT guidance is between EUR350m and EUR370m taking into account a EUR35m negative currency impact. Based on FX sensitivity and using current parities until the end of the year, our estimate is -EUR25m. One of the main differences is on BRL/EUR with Edenred using 4.00 vs. 3.86 representing an impact of EUR5m on EBIT. Note that we have also taken into account the depreciation of the GBP/EUR exchange rate (the UK generates 5% of consolidated revenue) and the TRY (Turkey generates an estimated 2/3 of RoW representing 4% of consolidated IV).

Main currency impacts

Exchange rates: +/-5%	Impact on EBIT	Implicit group EBIT contribution	Implicit LatAm EBIT contribution
Brazil	7,6	44,6%	75,2%
Venezuela	0,4	2,3%	4,0%
Mexico	1,5	8,8%	14,9%

Source : Company Data; Bryan Garnier & Co. ests.

Main changes

	2016e			2017e			2018e		
	Old	New	Change %	Old	New	Change %	Old	New	Change %
SALES	1 117	1 128	1,0%	1 202	1 234	2,7%	1 272	1 308	2,8%
EBITDA	410	421	2,6%	457	482	5,5%	494	521	5,6%
	36,7%	37,3%	59 bp	38,0%	39,1%	103 bp	38,8%	39,9%	105 bp
EBIT	364	372	2,4%	406	429	5,4%	440	465	5,6%
	32,5%	33,0%	45 bp	33,8%	34,7%	91 bp	34,6%	35,5%	94 bp
EPS	0,92	0,94	2,7%	1,04	1,08	4,2%	1,13	1,18	4,5%

Source : Company Data; Bryan Garnier & Co. ests. Source : Company Data; Bryan Garnier & Co. ests.

VALUATION

- Our DCF with WACC of 9.1%, long term growth of 2.5% after 2025 and operating EBIT margin of 30% (27.5% in 2015), prompts us to move our FV to EUR22.
- At the current share price, the stock is trading 15.1x EV/EBIT 2016e and 13.1x 2017e which compares with CAGR EBIT 2015-2018 of 10.9x.

NEXT CATALYSTS

- Q3 revenue on 13th October
- Capital market day on 19th October (London) [Click here to download](#)

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SELL ratings 10,7%

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